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1967 ANNUAL REPORT

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NATIONAL STARCH AND CHEMICAL CORPORATION

NATIONAL STARCH AND CHEMICAL CORPORATION

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1967

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COMPARATIVE HIGHLIGHTS

	1967	1966
Net sales	\$111,882,834	\$105,200,030
Earnings before income taxes	\$ 14,351,083	\$ 14,176,677
Taxes on income	\$ 6,539,802	\$ 6,541,788
Net income	\$ 7,811,281	\$ 7,634,889
Depreciation	\$ 4,479,894	\$ 4,129,650
Cash flow	\$ 12,291,175	\$ 11,764,539
Cash dividends	\$ 2,931,463	\$ 2,565,169
Capital additions	\$ 8,444,712	\$ 10,815,248
Plants, properties and equipment (net)	\$ 36,411,072	\$ 32,451,695
Earnings per share	\$2.13	\$2.08
Cash dividends per share	\$.80	\$.70
Shares of common stock outstanding	3,663,748	3,662,456
Number of stockholders	3,111	2,988

TO OUR SHAREHOLDERS

We are pleased to report that in 1967, for the fifteenth consecutive year, sales and profits rose to record highs. That this result was achieved, after a poor start, must be attributed not only to a more favorable economic environment in the second half of the year but also, in large measure, to an esprit de corps which united all our people in a strong drive to continue, unbroken, a fourteen-year record.

Sales increased in 1967 to \$111,882,834 from \$105,200,030 in 1966 or 6.4 percent. Earnings increased to \$7,811,281 from \$7,634,889 or 2.3 percent. Per share earnings increased to \$2.13 from \$2.08. Quarterly cash dividends were paid in 1967 at the rate of 20 cents per share. On January 29, 1968, the Board of Directors continued this rate for the February dividend and also voted a 5% stock dividend to be paid March 29, 1968, to stockholders of record on March 11, 1968.

Several factors contributed to the decline in margins. Most important, especially during the first half of the year, was the unusually high cost of corn, accompanied by lower by-product prices. This was aggravated by the spread of some destructive and self-defeating pricing practices in the sale of certain non-specialty products. Corn prices declined during the second half of 1967 and appear likely to remain, during 1968, substantially below first

half 1967 levels. But the pressures on prices and the increases in wages and other raw material costs have carried over into early 1968.

Our Kleen-Stik operation continued to show a loss, somewhat greater in fact than in 1966. A great deal of progress has now been made here, however, and we expect improved results in 1968.

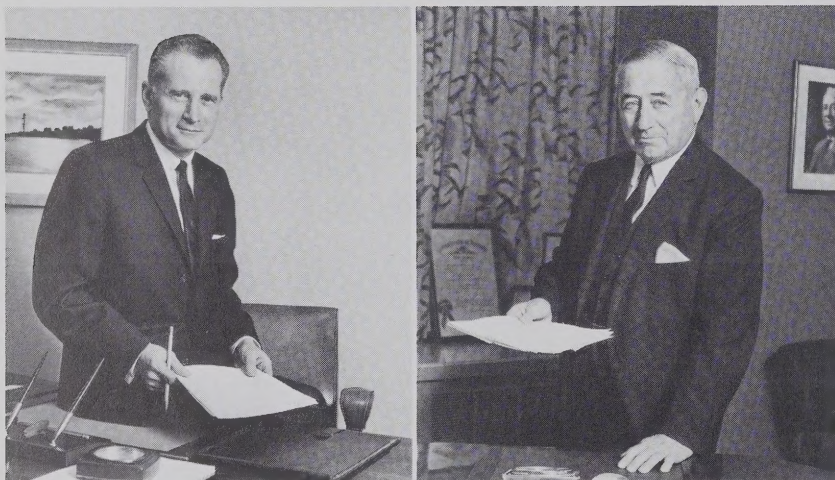
Our research and development efforts continued at an accelerated rate. Expenditures were approximately \$5,400,000 in 1967 compared to \$4,950,000 in 1966. Our emphasis on this area was also reflected by the election of Dr. Caldwell as Executive Vice President, Technical. Past efforts have given us a substantial lead in our traditional markets as well as occasional breakthroughs into new markets. The number and potential of new products currently being commercialized is greater than ever before.

Expenditures for capital additions amounted to \$8,444,712 in 1967, about equal to the average of the prior three years. In the next year or two, such expenditures are expected to amount to about \$10,000,000 per year. Additional funds for such future capital expenditures were provided by a 6½ year, \$10,000,000 bank loan agreement, effective July 1, 1967, under which loans of \$4,250,000 were outstanding on February 1, 1968.

Our international enterprises in total showed substantial progress in 1967 and further progress is expected in 1968. The relative contribution of these operations to total earnings, both in the form of consolidated earnings of wholly-owned subsidiaries and dividends from joint ventures, was somewhat higher than last year. Hedging operations resulted in a minimal balance sheet loss from the devaluation of the British pound, but future dollar earnings in England will, of course, be reduced. As of this writing, we are still exploring the impact of the new governmental controls on our investments outside the United States.

Again, we must mention that duty-free tapioca starch, directly competitive with corn starch, continues to flow into this country at a very high rate. This is unfortunate since domestic starches could replace all but a small percentage of these imported starches and at the same time improve the nation's balance of payments.

As described in more detail elsewhere in this report, in 1967 the Company implemented a series of changes in organizational structure which should improve our position with respect to both the efficiency of our day-to-day operations and the effectiveness and rate at which the Company can grow in profitable areas. Another important aspect of these changes is that they in-



volve the assumption of increased responsibilities by our younger people, providing the depth of management we need as we continue to grow.

It is with the greatest sorrow that we note the untimely death in 1967 of Mr. Alfred H. Drewes, President of the National Lead Company and a member of our Board of Directors since 1960. We remain most appreciative of the contribution he made to our company during this period.

Mr. Henry A. Correa, President of ACF Industries, was elected to our Board. His broad experience in international operations and marketing has already proved of great value to the Company.

Clearly, as we enter 1968, the world and the nation are extremely troubled.

These troubles involve aspects of our political, economic and social life which, however difficult they may be to evaluate, are bound to have their effects on your company's affairs. Apart from this, a look at the important factors which affected us directly in 1967 shows some conditions which have improved, such as corn costs, and some which have not, such as certain price pressures. Hopefully, we will come out on the plus side of these forces and, in any event, we would expect those factors which continued our growth in 1967—our research and development, our

marketing skills, our plant improvements and particularly the capabilities of our people—to continue our progress in 1968 and beyond.

Our thanks are all the more heartfelt this year to all of the National family—employees, customers, suppliers, shareholders and all our friends—who helped to achieve this unbroken fifteen year record of increased sales and earnings in a year when so much was working against us. Even more than before, they have this year proved their loyalty, determination and ability.

Donald D. Rasco

President

Frank P. Russell

Chairman

1967 OPERATIONS REVIEW

New Products

In the adhesive field we mentioned last year the increasing use of hot melt adhesives in established and new applications. This year, progress both in manufacturing processes and in the use of new raw materials has led to a variety of products which are not only new in their chemical properties but are also in new physical forms more convenient and efficient for customer use. The market for bookbinding adhesives has been expanded with a new hot melt adhesive with properties that permit a book or magazine bound with it to lie flat when opened.

The use of cloth-to-foam, cloth-to-cloth, and similar types of laminations in the apparel and related industries has been growing rapidly, and the sale of adhesives to make these laminations continues to expand. We have under development some basic new materials for this field of use.

The use of a variety of cationic starches in paper manufacturing as wet end additives for paper formulation and as sizing and coating binders continues to develop rapidly. Considerable research and development effort was devoted to working out new and more efficient manufacturing processes for these products in order to further improve quality and to develop new application techniques for the wide variety of paper making and coating processes used in different paper mills. This year we have announced two new

cationic starch derivatives — Cato-Bond and Cato-Size.

Our new modified resin latex 1104 for paper and board coating is more than meeting performance expectations and sales are increasing. A number of new synthetic latexes for paper saturation are now commercial.

The new specialty starches for food products mentioned last year are progressing well. Textaid,® which imparts a natural grainy texture to such items as tomato sauce and fruit and vegetable juices, is generating outstanding interest. Baka-Snak is another new product for the preparation of snack foods. Instant Plus is a new cold-water-soluble starch for use in instant puddings, instant gravies and dry soups.

The uses for high-amylose starches also continue to grow rapidly. One significant new use is in the confectionery field for the production of jelly bean and gum drop types of candy, where more economical processing and greatly improved quality can be obtained.

Hi-Bond,® another high-amylose starch derivative introduced in 1966, continues to show rapid sales growth, becoming well established in the textile industry in 1967. Hi-Bond is a warp size particularly suited for blends of synthetic and natural fibers.

Of interest in the resin coating field is the development of a new flooring system, referred to as monolithic because it produces an uninterrupted

seamless surface by the application of successive coats of resin. This system is based on the use of one of our special coating binders both as the base coat and the intermediate coat. Colored film chips used to obtain decorative patterns in the flooring are also made from our resins.

Sales of aerosol hair spray resins have continued to increase and we have under way an active and promising program for the development of products for other cosmetic applications, as well as new resins for hair spray.

In the specialty chemical field we have expanded our efforts along several new lines with good promise. In the second half of 1967, we began semi-commercial production of two synthetic polyelectrolytes which are offered for use as retention aids and as flocculant and sludge conditioners in the treatment of process and waste water.

Facilities

Expansion of plant facilities continued at a rapid rate in 1967.

Major expenditures included the completion in October of the expansion of our corn milling and specialty starch treatment capacity at Indianapolis. The last stage of the Indianapolis plant expansion, providing additional steam and other supporting capacity, is scheduled for completion in early 1968. Our Indianapolis plant also completed a substantial addition to its cold-water-soluble starch manufacturing facilities.

Other significant projects completed in 1967 involved the expansion and installation of new facilities for the production of specialty solutions and hair spray resins at Meredosia, Illinois, the installation of a new boiler at Plainfield, New Jersey, and a major addition to our polymerization capacity and warehouse facilities at Braunston, England.

Substantial progress was made in the construction of our new Canadian starch plant in Collingwood, Ontario, with completion expected in late 1968. Other projects started in 1967 and expected to be completed in 1968 include an expansion at Plainfield of our specialty starch treating facilities for imported starches and additional adhesive capacity at Dallas, Texas, Los Angeles, California, and Canton, Massachusetts.

Late in 1967 we arranged to replace our present computer with one which will give us the power and flexibility required to expand our system and data-processing capabilities. This computer is expected to be installed and the transition completed in late 1968.

International Operations

Our international enterprises as a whole, both consolidated subsidiaries and unconsolidated joint ventures, made considerable progress in 1967. Both sales and earnings attained new records, although the results of our English subsidiary, while satisfactory, continued to reflect the economic problems in that country. Major emphasis at

all locations was placed on training of personnel and the development of new and improved product applications.

The name of our English subsidiary was changed on January 1, 1968, to National Adhesives and Resins, Ltd., in order to reflect its activities more completely. As previously noted, a major expansion was completed at its Braunston plant in 1967.

Inter-National Adhesives and Resins, Pty. Ltd. in Australia continued to show good progress in 1967. It is anticipated that additional adhesive capacity will be required in the near future and appropriate plans are now being developed.

The expansion and consolidation of the manufacturing facilities and administrative office of National Starch and Chemical de Mexico was completed in November, and the projected benefits of this program are already in evidence. Additional polymerization capacity is expected to be provided by late 1968.

Progress in sales and earnings was made in Canada and, as previously noted, the construction of a new starch plant, scheduled to be completed in late 1968, represents a major undertaking there.

NSC's three joint ventures, Delfi-National Chemie in Holland, Laing-National in England, and Roquette-National Chimie in France, all showed record sales and earnings in 1967. All three joint ventures were successful in achieving increased market penetration.

Organization

A number of important changes in organization structure and corresponding personnel assignments were made toward the end of 1967. Two new major staff responsibilities were established, each under newly-appointed Assistant Vice Presidents. One of these, Long-Range Planning, will provide central coordination with respect to many projects directed toward the Company's growth. This function now includes market research, economic evaluation, and new product coordination, with primary emphasis on new markets. The other new staff group, Materials Management, is responsible for the efficient functioning of all company operations relating to the availability and movement of our products and should effectively tie together at the corporate level such customer-service related functions as traffic, inventory management and distribution. Much of the computer-oriented systems development is in support of this effort.

In addition there was marked progress toward the further reorganization of sales, marketing and product development activities along divisional lines based on product and market specialization. A systematic program of changes in this direction was instituted a number of years ago and has proven to be most beneficial.

Personnel

Our training efforts in 1967 were increased with emphasis on improving the performance of our people. Improvements and modifications were made in a number of our programs, involving both job skills and individual improvement, and full use was made of advanced training and communication aids, including new video tape equipment.

All negotiations for wage reopeners or new union contracts during the year were concluded satisfactorily.

Our ninth offering under our Employee Stock Purchase Plan, open to all employees except officers, was com-

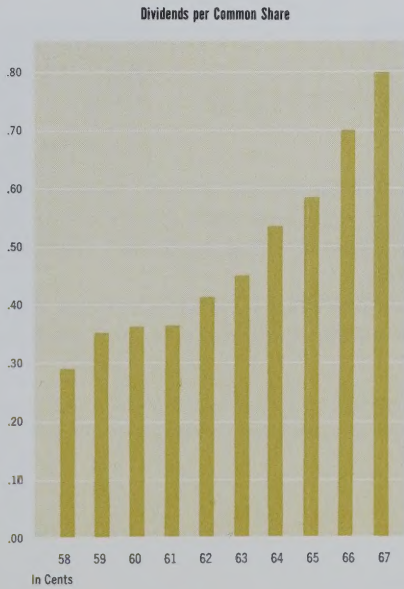
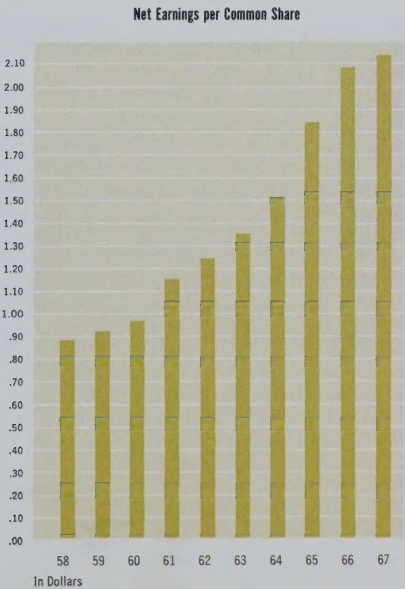
pleted at the end of October 1967. These programs have been very helpful, we believe, in encouraging a proprietary interest in the Company.

Executive Changes

- Carlyle G. Caldwell was elected Executive Vice President, Technical. Dr. Caldwell, who started with the Company in 1940, has been Vice President since 1955 and a Director of the Company since 1962.
- Alfred G. Battaglia was elected Assistant Vice President in charge of Long-Range Planning. Mr. Battaglia has been with the Company since 1946 and has been engaged in a variety of technical

marketing assignments, most recently in the direction of our product development and service activities for adhesives, resins and specialty chemicals.

- J. Donald George was elected Assistant Vice President in charge of Materials Management. Mr. George joined the Company's Manufacturing Department in 1939 and has been Assistant Director of Manufacturing since 1956.
- Otto B. Wurzburg was elected Assistant Vice President in charge of Starch Research. Mr. Wurzburg joined the starch research group of the Company in 1939.



PAPER STARCHES AND RESINS

National's cationic starches give a number of important benefits to papermakers. Most importantly they bind other additives into the paper and improve overall paper strength. As coating and surface treatments, cationic starches provide uniformity, printability and opacity for bonds, offsets and coated papers, including publication

grades for magazines and books.

National resins are used as coatings to increase printability and sharpen colors on a broad variety of paper packaging materials, including paperboard — and on industrial papers and paper clothing and fabrics as a flame proofing treatment.

PACKAGING ADHESIVES

The use of adhesives in the packaging of virtually every product involves widely divergent conditions of machinery speed, temperature, humidity, moisture and bond strength. In addition, the surface materials to be adhered, the shape of the packaged product and the conditions of shipping and storage differ widely.

National's adhesive technology has kept pace with rapidly-changing packaging needs and innovations.

Factors of product development, quality, expert technical service and strategically located plants are all working toward maintaining National's position as the world's foremost supplier of packaging adhesives.


FOOD STARCHES

The need of food manufacturers for increased processing efficiencies, and growing demands for convenience food by housewives, have created important new opportunities for National.

New product developments by National's Food Division are benefiting bakers, confectioners, and proces-

sors of hundreds of types of canned, frozen and bottled foods, sauces, gravies and desserts.

More than 40 varieties of National food starches add texture, clarity, body, smoothness, crispness, flavor and other desired characteristics to a wide variety of food products and, through research, the list keeps growing.

[illegible][illegible]

**Most hot melts are great
on the packaging line.
But what happens to your cases
here on a hot day?**

**National Instant-Lok® hot melts
work in your plant and on the road.**

Almost no hot melt can be used on standard polyethylene tape. The only problem is, with today's increasing popularity of tape on the exterior finish of a lot of consumer products, there's now a difference about how hot melts should flow.

You can use the reference tape you use for packaging and use Instant-Lok for melt. But you'll find that the Instant-Lok hot melt will flow better on the reference tape than on the tape you use for packaging. And it's a high temperature melt resin that has a very high flow and expansion capacity.

So to demonstrate the performance difference together with our trademarked expansion, let your National representative show you.

National Instant-Lok® Hot Melts, 100% Polyethylene, New York, NY 10017. National Instant-Lok® Hot Melts, 100% Polyethylene, New York, NY 10017. National Instant-Lok® Hot Melts, 100% Polyethylene, New York, NY 10017.

NATIONAL STARCH AND CHEMICAL CORPORATION

National

*Broad range of products, technical service, adhesive quality and uniformity,
fast delivery — this is National's packaging adhesives story.*

[illegible][illegible]

For texture, clarity, gloss and taste,
 use Clearfil® for stabilized fresh pie fillings,
 (or Col-Fil® for frozen fillings)

Viscosity: 1000 cps @ 25°C. Thinning: 5 cps @ 100°C. Storage: 100 Days. Expiry: 12 Months. New York, New York 10012.

INTERNATIONAL, STYRENE AND COMMERICAL CORPORATION *National*

Bakers, confectioners and food processors of every description get the National product story regularly in their trade magazines.

TEXTILE STARCHES AND RESINS

Specialty starches from National form strong, flexible films on cottons and synthetic yarns which increase strength and weaving efficiency and improve fabric feel and appearance.

National resins increase strength and wear resistance,

improve appearance, aid crease recovery, and help control shrinkage in many fabrics.

Both starches and resins are used as printing thickeners and to bind pigments for color fastness through repeated washing and dry cleaning.

PAINT AND COATING RESINS

More and more professional painters and do-it-yourselfers are working with latex paints and coatings that go on easily, dry quickly, have practically no odor and resist wear and weather.

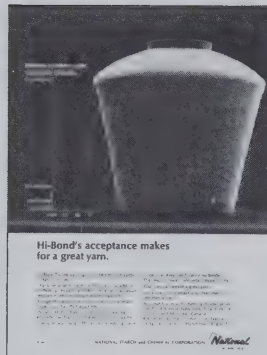
Special National resin formulations are used in many

well known brands of interior and exterior paint. In addition, National water-phase systems are finding new applications in seamless flooring, laminating, fire retardant paints and other important new developments for home and industry.

FURNITURE AND BUILDING ADHESIVES

Producers of furniture, doors, siding, cabinets, counter tops, paneling and many other wood and building products use National's structural adhesives for such wood-working operations as finger-jointing, edge-gluing, laminating, sandwiching, pressing and bonding.

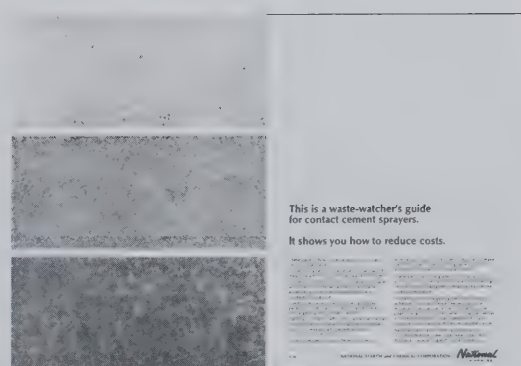
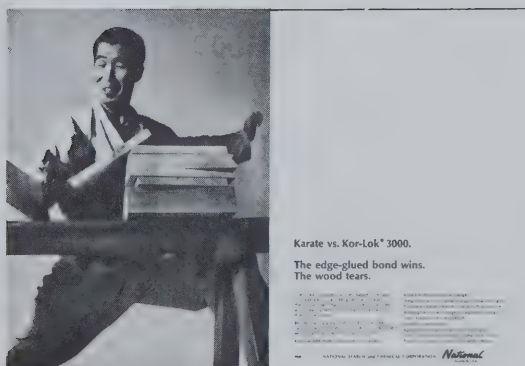
National's structural adhesives and coatings add strength, weather resistance, economy and beauty to a growing variety of furniture and building products. Each of these factors is of great importance to both producers and purchasers.



National textile advertising stresses weaving efficiency in the mill — stronger, more beautiful fabrics in the home.



Indoors or out, latex paints made with National resins withstand even the most adverse conditions.



If the wood breaks before the adhesive fails, it's probably a National structural adhesive. National offers a useful guide for adhesive waste watchers too.

COSEMETIC AND PHARMACEUTICAL PRODUCTS

Holding power, non-fading sheen, ease of combing, washability. These features, sought by women in a hair spray, are achieved with National hair spray resins.

Growth in this field has been steady and the further development of hair sprays promises new and larger

markets for National.

National starch specialties are also widely used in the cosmetic and drug fields as dusting powders, whitening agents, salve thickeners and in a number of other applications.

CHEMICALS

Problems of plastic discoloration from the effects of sunlight have been solved by one of National's chemical specialty products.

Other chemical specialty products from National in-

clude a wide variety of starch powders for use in dusting, detackifying, finger paints and many other areas.

The vitally important area of waste water treatment is also being served by chemical products from National.

MANY MORE

National's Barge Cement is used by more shoe repair shops than any other adhesive. In addition, National leather-pasting adhesives and laminants are widely used in the construction and finishing of many types of luggage and leather goods.

Industrial starches developed by National are used in such diverse products as gypsum wallboard, acoustical tile and dry cell batteries.

National adhesives are used in cloth bonding, bookbinding and many other areas.

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There's no genie inside a can of Barge[®] cement. Just a reliable friend.

There's a lot of trouble hidden in going your own way. But there's no trouble in following the Barge[®] cement formula. Barge[®] cement is the only cement that's been tested for 100 years. It's the only cement that's been tested for 100 years. It's the only cement that's been tested for 100 years.

BARGE CEMENT MANUFACTURING COMPANY

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RESEARCH AND DEVELOPMENT

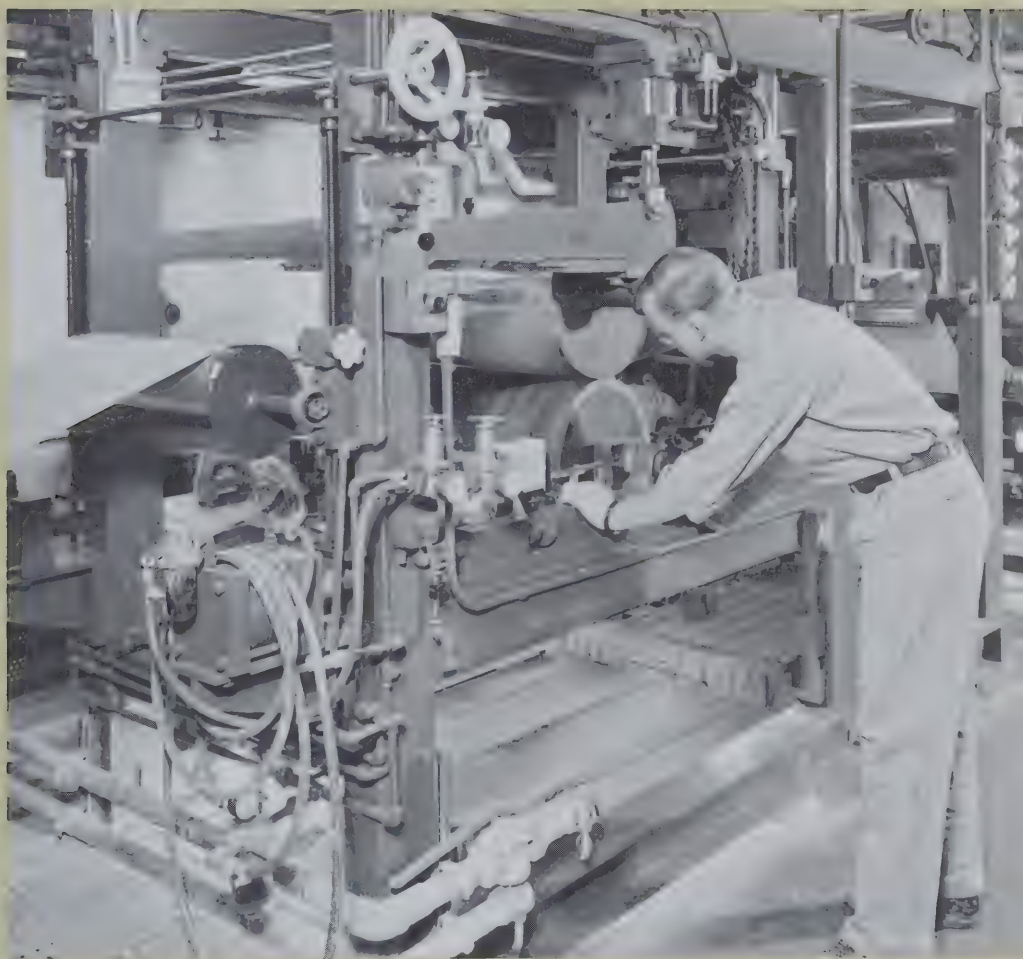
At National, research is a continuing activity. At the Alexander Research Center in Plainfield, N. J., and in supporting laboratories throughout the world, nearly 450 people are engaged in research, development, engineering and customer technical service activities.

A vinyl/resin emulsion, the first water-phase product specifically developed for seamless flooring, was introduced by National in 1967. The new system is applied over any existing floor surface. First a pigmented underlayment coat is applied. While this coat is still wet, decorative vinyl chips are sprinkled on in any desired pattern. After the surface dries, a clear emulsion seal coat is applied. The National system is applied and dry in about 6 hours. Solvent based urethane systems require anywhere from 12 to 24 hours to cure and dry.

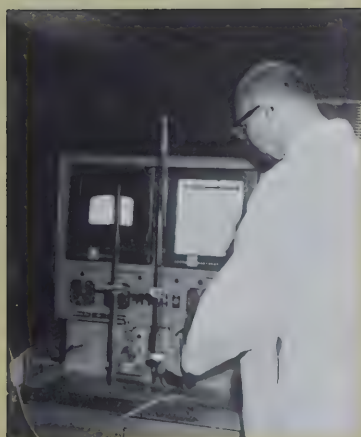




In an exercise conducted by the Plainfield, N. J., Fire Department, National's fire-retardant, or intumescent paint coatings were used in various parts of the house. Intumescent paint coatings blister when exposed to flame or intense heat. This creates an insulating layer which affords a far greater degree of protection to surfaces exposed to fire. Not all National's research is done inside the lab.



This "lab size" paper coater in our Alexander Laboratories at Plainfield, N. J., enables National scientists to develop and perfect better coatings for papermakers. National's cationic coating binder, Cato-Kote®, represents a major breakthrough in this vital area.



The addition of reagents to starch is controlled automatically during a food starch research project at Alexander Labs.

NEW FACILITIES

Manufacturing and service facilities have expanded in direct proportion to National's steady growth. During 1967 National facilities throughout the world were expanded and made more efficient in accordance with long range corporate goals.

Expansion of National's Indianapolis, Indiana, corn wet-milling plant, which has been going on steadily for many years, continued during 1967. This view, from across the White River, shows the most recent new construction, including the new 15,000 lb. per hour flash dryer in front of National's grain elevator at the right.



This view of the National Adhesives and Resins Ltd. plant, Slough, England, shows virtually all of the expansion completed in 1967. The building on the right contains warehouse space in addition to housing water and electrical service equipment. At the left is the new resin polymerization building which has doubled polymerization capacity at the plant.



Ground was broken in June for National's new corn wet-milling plant at Collingwood in Ontario, Canada. National President Don Pascal has passed up the traditional spade in favor of the bulldozer for ground-breaking ceremonies. The plant is being built on a 26 acre site with completion scheduled late in 1968.

TRAINING

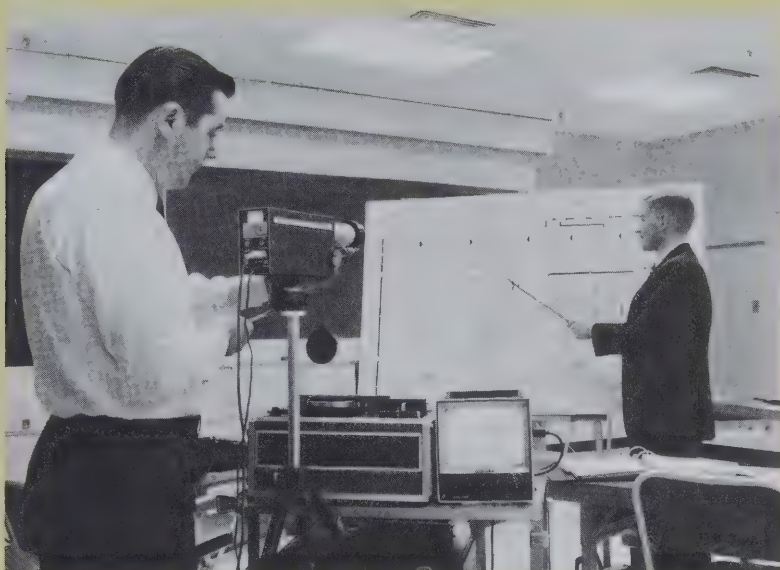
National's continuous training program for personnel at all levels took on a new dimension during 1967 with the incorporation and full utilization of a closed circuit TV and instant playback video tape system.

Vital information of all kinds—corporate, sales, technical and manufacturing — was disseminated uniformly

to branch plants and offices while key personnel continued their regular activities.

Plans are now being developed for a complete inter-branch training system through the use of video tapes which will further company communications as well as individual training and development.

National's new video tape recording system permits a level of internal information dissemination never before possible for National. A portable TV camera, monitor and playback equipment have added this valuable new link.



Management development and sales training programs have been restructured to meet the needs of National's expanding management and work force. Management techniques, motivation and personnel development are continuously emphasized. The sales training session shown here, one of many throughout the world, took place in National's San Francisco office.

ACCOUNTANTS' REPORT

MAIN LAFRENTZ & CO.

90 Park Avenue, New York, N. Y. 10016

To the Board of Directors and Stockholders of
National Starch and Chemical Corporation

We have examined the consolidated balance sheet of National Starch and Chemical Corporation and subsidiary companies as of December 31, 1967, and the related statement of consolidated income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. With respect to foreign subsidiaries, we have relied upon reports submitted by other independent public accountants, which indicate their examinations were similar in scope.

In our opinion, the accompanying consolidated balance sheet and related statement of consolidated

income and retained earnings present fairly the financial position of National Starch and Chemical Corporation and subsidiary companies as of December 31, 1967, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N.Y.
February 7, 1968

Main Lafrentz & Co.
Certified Public Accountants

**NATIONAL STARCH AND CHEMICAL CORPORATION
AND SUBSIDIARY COMPANIES**

**STATEMENT OF CONSOLIDATED INCOME
AND RETAINED EARNINGS**

	<i>For the Year ended December 31,</i>	1967	1966
Net Sales		\$111,882,834	\$105,200,030
Cost of Sales		78,410,519	73,241,695
Gross Profit		33,472,315	31,958,335
Selling, General and Administrative Expense		19,093,087	17,778,169
Profit from Operations		14,379,228	14,180,166
Other Income		1,388,199	1,101,315
Total Income		15,767,427	15,281,481
Other Charges		1,416,344	1,104,804
Income before Provision for Taxes		14,351,083	14,176,677
Provision for Estimated Federal, Foreign and State Taxes on Income ..		6,539,802	6,541,788
Net Income		7,811,281	7,634,889
Retained Earnings, January 1		25,300,019	20,230,299
Total		33,111,300	27,865,188
Dividends Paid		2,931,463	2,565,169
Retained Earnings, December 31		\$ 30,179,837	\$ 25,300,019
Net Income per Common Share		\$ 2.13	\$ 2.08

Note: The accompanying financial notes are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

ASSETS	December 31,	1967	1966
Current Assets:			
Cash		\$ 4,245,470	\$ 4,844,822
Accounts receivable:			
Trade		11,700,747	9,962,781
Other		1,726,748	1,236,218
Inventories, at lower of average cost or market:			
Finished goods		10,059,095	10,696,982
Raw materials and supplies		7,946,949	6,642,673
Total Current Assets		<u>35,679,009</u>	<u>33,383,476</u>
Investments (at cost)		<u>1,022,302</u>	<u>1,058,705</u>
Property:			
Buildings and equipment (at cost)		67,614,118	59,340,316
Less accumulated depreciation and amortization		<u>32,248,600</u>	<u>27,834,228</u>
		35,365,518	31,506,088
Land		1,045,554	945,607
Property — net book value		<u>36,411,072</u>	<u>32,451,695</u>
Other Assets and Deferred Charges		<u>241,157</u>	<u>192,138</u>
Excess of Investments over Net Assets Acquired		<u>1,003,231</u>	<u>1,014,896</u>
Total		<u><u>\$74,356,771</u></u>	<u><u>\$68,100,910</u></u>

Note: The accompanying financial notes are an integral part of this statement.

**NATIONAL STARCH AND CHEMICAL CORPORATION
AND SUBSIDIARY COMPANIES**

LIABILITIES	<i>December 31,</i>	1967	1966
Current Liabilities:			
Notes payable to banks	—		\$ 2,750,000
Long term debt due within one year	\$ 453,028		184,024
Accounts payable	4,027,224		4,771,051
Accrued taxes	3,611,809		4,154,814
Accrued expenses	1,590,089		1,269,871
Total Current Liabilities	9,682,150		13,129,760
Long Term Debt Maturing After One Year	12,604,783		7,701,528
Deferred Income Taxes	172,634		105,664
Reserve For Foreign Exchange Fluctuation	24,478		28,409
Minority Interest In Subsidiary	—		256,993
Stockholders' Equity:			
Common stock	1,845,923		1,844,634
Paid-in surplus	20,814,706		20,750,939
Retained earnings	30,179,837		25,300,019
	52,840,466		47,895,592
Less treasury stock (at cost)	967,740		1,017,036
Total Stockholders' Equity	51,872,726		46,878,556
Total	\$74,356,771		\$68,100,910

Note: The accompanying financial notes are an integral part of this statement.

FINANCIAL NOTES

Applicable to 1967 financial statements

1. The consolidated statements include the accounts of all subsidiaries of the Company of any significance. The Company's 50% joint ventures in foreign countries have not been consolidated and the investment in these ventures is carried at cost.

2. The accounts of foreign subsidiaries have been translated into United States dollars at appropriate rates of exchange. The Company hedged against the devaluation of the English pound and its balance sheet loss due to the devaluation was not material and is reflected in the accounts.

3. Under the Company's loan agreements, executed in 1966 and 1967, dividend payments on its stock (other than stock dividends) are limited to earnings of the Company accumulated after December 31, 1965, the unrestricted balance of which amounted to \$10,989,755 on December 31, 1967. The Company is also required to maintain working capital in an amount not less

than \$16,000,000. Under the 1966 loan agreement, \$7,500,000 is outstanding and is repayable in installments from 1968 to 1972. The 1967 loan agreement provides for up to \$10,000,000 in 90 day revolving credit loans to December 31, 1968, convertible on that date into a term loan repayable in installments from 1969 to 1974. Under this agreement, \$5,250,000 in revolving credit loans was outstanding on December 31, 1967.

4. Under the Company's 1951 and 1965 Stock Option Plans for Key Management Employees, 59,903 shares of Common Stock were issuable under options outstanding on January 1, 1967. During 1967, options with respect to 2,577 shares were exercised. All grants were made at not less than 95% of the market price at date of grant. On December 31, 1967, options aggregating a total of 57,326 shares were outstanding under the 1951 and 1965 Plans. There were no changes in the exercise price of outstanding options under the Plans through cancellation and reissu-

ance or otherwise. On November 1, 1967, 8,056 shares from the Company's treasury were sold pursuant to the Company's Employee Stock Purchase Plan.

5. The Company has several pension plans under which substantially all of its employees are eligible for coverage. The Company's policy is to fund pension cost accrued; prior service costs are amortized over 30 years. The assets of the pension funds exceeded the actuarially computed value of vested benefits for all plans as of the latest valuation dates. In addition to these plans, certain subsidiaries have plans, the effect of which is not significant. The total pension cost of the Company and its consolidated subsidiaries for 1967 was \$641,349.

6. Net income reflects the full United States tax credit for investment in depreciable property. The total credit, including adjustments and amortizations of prior years' credits, was \$418,508 in 1967.

7. Stockholders' equity was represented by the following:

CAPITAL STOCK:

Preferred —

\$100 par; authorized
25,000 shares; none issued

Common —

\$50 par; authorized
8,000,000 shares;
issued 3,691,845 shares ..\$ 1,845,923

Reserved:

57,326 shares
for Stock Options

PAID-IN SURPLUS 20,814,706

RETAINED EARNINGS 30,179,837
52,840,466

LESS TREASURY STOCK

(25,639 Common shares at cost) 967,740

TOTAL \$51,872,726

8. Changes in paid-in surplus were
as follows:

Balance, January 1, 1967 . . . \$20,750,939

Excess of proceeds over par
value of Common Stock
issued or sold under stock
option and stock purchase
plans 63,767

Balance, Dec. 31, 1967 \$20,814,706

9. Certain claims are pending
against the Company but, in the opinion
of the Company, these matters are not
expected to have a significant effect
on the Company's financial condition.

National Starch and Chemical Corporation and Subsidiary Companies

**Consolidated Statement of Source
and Application of Funds**

For the Year Ended December 31, 1967

Source of Funds:

Net income \$ 7,811,281
Depreciation 4,479,894
Long term debt 4,903,255
17,194,430

Application of Funds:

Capital additions 8,444,712
Dividends 2,931,463
Other — net 75,112
11,451,287

Working Capital Increase \$ 5,743,143

NATIONAL STARCH AND CHEMICAL CORPORATION

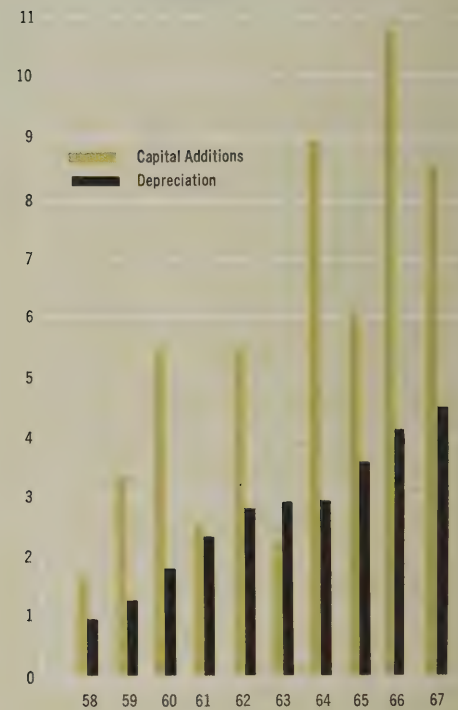
AND SUBSIDIARY COMPANIES

All Charts in Millions of Dollars

Net Sales



Capital Additions . . . \$8,444,712.
Depreciation 4,479,894.



TEN-YEAR SUMMARY OF FINANCIAL INFORMATION—1968-1967

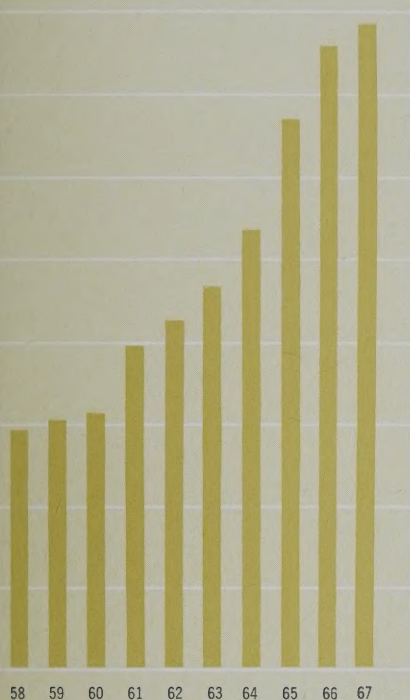
OPERATING RESULTS

Year	Net Sales	Cost and Other Expenses (net)	Earnings Before Income Taxes	Income Taxes	Net Income from Operations	Earnings from Operations Per Common Share*†	Cash Dividends Per Common Share†	Depreciation	Cash Flow Per Common Share†
1967	\$111,882,834	\$97,531,751	\$14,351,083	\$6,539,802	\$7,811,281	\$2.13	\$.80	\$4,479,894	\$3.35
1966	105,200,030	91,023,353	14,176,677	6,541,788	7,634,889	2.08	.70	4,129,650	3.21
1965	94,856,432	82,532,407	12,324,025	5,562,137	6,761,888	1.84	.58	3,608,040	2.83
1964	83,499,340	73,176,964	10,322,376	4,969,933	5,352,443	1.52	.53	2,934,708	2.61
1963	75,972,814	66,113,258	9,859,556	5,111,915	4,747,641	1.35	.45	2,914,548	2.21
1962	70,566,152	61,724,425	8,841,727	4,490,943	4,350,784	1.25	.41	2,861,459	1.93
1961	65,171,184	56,931,820	8,239,364	4,245,637	3,993,727	1.15	.36	2,330,247	1.80
1960	54,422,732	47,808,664	6,614,068	3,371,982	3,242,086	.96	.36	1,783,900	1.49
1959	52,768,725	46,311,573	6,457,152	3,356,346	3,100,806	.93	.35	1,351,465	1.40
1958	46,200,145	40,120,080	6,080,065	3,180,401	2,899,664	.88	.29	992,237	1.10

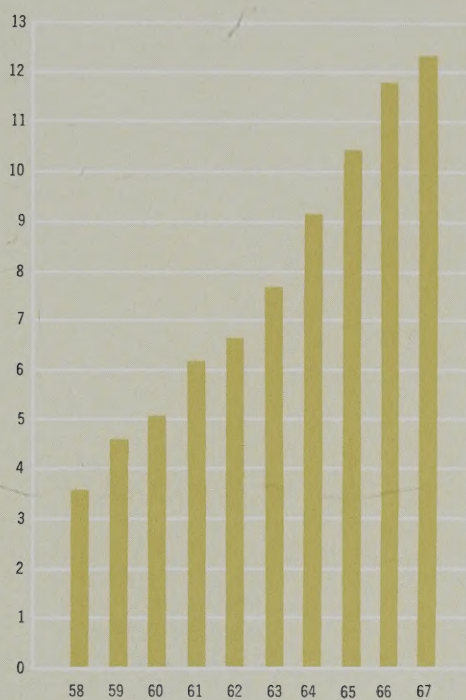
* After preferred dividends except 1963 and thereafter when no preferred stock was outstanding during the year.

†Computed on average shares outstanding during the year. Adjusted for 10% stock dividend in

Net Earnings After Taxes



Cash Flow



FINANCIAL POSITION

Current Assets	Current Liabilities	Working Capital	Plant, Properties and Equipment—Net of Depreciation	Capital Additions	Long term Debt	Common Stockholders' Equity	Equity Per Common Share†	Current Ratio
\$35,679,009	\$9,682,150	\$25,996,859	\$36,411,072	\$8,444,712	\$12,604,783	\$50,869,495	\$13.88	3.7 to 1
33,383,476	13,129,760	20,253,716	32,451,695	10,815,248	7,701,528	45,863,660	12.52	2.5 to 1
27,037,775	9,913,364	17,124,411	25,815,361	6,004,470	2,051,956	41,722,672	11.37	2.7 to 1
25,700,623	10,038,111	15,662,512	23,458,376	8,950,961	2,729,699	37,748,062	10.69	2.6 to 1
26,819,098	8,603,941	18,215,157	17,489,009	2,271,257	6,406,687	30,087,867	8.56	3.1 to 1
21,859,359	7,355,094	14,504,265	17,699,876	5,481,800	7,185,417	26,799,215	7.67	3.0 to 1
22,782,874	7,299,871	15,483,003	16,379,196	2,576,963	8,175,714	24,096,839	6.96	3.1 to 1
17,075,897	4,461,356	12,614,541	15,039,645	5,445,886	8,408,796	20,745,851	6.14	3.8 to 1
16,131,471	4,416,807	11,714,664	11,359,496	3,321,662	4,468,336	18,676,766	5.58	3.7 to 1
14,882,916	4,973,175	9,909,741	9,129,382	1,719,635	1,869,652	16,345,112	4.94	3.0 to 1

1958, 2 for 1 split in 1959, 2% stock dividends in 1960 and 1961, 3% stock dividends in 1962, 1963 and 1964 and 3 for 2 distribution in 1965.

Kleen-Stik Products included since 1961; all subsidiaries of any significance included since 1963.

NATIONAL STARCH AND CHEMICAL CORPORATION

DIRECTORS

CARLYLE G. CALDWELL

Executive Vice President

EDWARD B. CONWAY

President, Edward B. Conway Inc., New York, N. Y.

HENRY A. CORREA

President, ACF Industries, New York, N. Y.

JOHN F. FITZGERALD

Vice President

GORDON GRAND, JR.

*President and Chief Executive Officer
Olin Mathieson Chemical Corporation
New York, N. Y.*

FRANK K. GREENWALL

Chairman of the Board

WILLIAM F. LAPORTE

*Chairman, President and Chief Executive Officer
American Home Products Corp.
New York, N. Y.*

ROBERT W. MERRITT

Executive Vice President

WILLIAM A. MITCHELL

*Retired, Formerly Chairman, The Central Trust Co.
Cincinnati, Ohio*

DONALD D. PASCAL

President

BERNARD H. SCHULIST

President, The Continental Bank, Cleveland, Ohio

SIDNEY F. THUNE

Executive Vice President

Honorary Directors

JOSEPH J. DANIELS

Partner, Baker & Daniels, Indianapolis, Indiana

CHESTER A. GAGE

Formerly Vice President of the Company

HERBERT C. PIEL

Formerly Vice President of the Company

OFFICERS

FRANK K. GREENWALL

Chairman of the Board

DONALD D. PASCAL

President and Chief Executive Officer

CARLYLE G. CALDWELL

Executive Vice President, Technical

ROBERT W. MERRITT

Executive Vice President, Manufacturing

SIDNEY F. THUNE

Executive Vice President, Marketing

JOHN F. FITZGERALD

Vice President, Starch Sales

ROBERT A. BINTZ

Vice President, Indianapolis

LESTER KLEMPNER

Vice President, National Accounts

HAROLD R. SAMPSON

Vice President, Employee Relations, and Secretary

BERKLEY V. SCHAUB

Vice President, International Operations

S. A. SEGAL

Vice President and Treasurer

A. G. BATTAGLIA

Assistant Vice President, Long Range Planning

J. DONALD GEORGE

Assistant Vice President, Materials Management

FRANCIS L. MURPHY

Assistant Vice President, Resins and Specialty Chemicals

OTTO B. WURZBURG

Assistant Vice President, Starch Research

JOHN C. CLAY

Assistant to the President

ROBERT B. ALBERT

Controller

General Counsel: Debevoise, Plimpton, Lyons & Gates

Auditors: Main Lafrentz & Co.

Transfer Agent: Morgan Guaranty Trust Company of New York

Registrar: The Chase Manhattan Bank

Annual Meeting: April 29, 1968, Hotel Biltmore, N. Y.

LOCATIONS*

Sales and Customer Service Centers

Atlanta	Miami	Toronto, Canada
Baltimore	Milwaukee	Montreal, Canada
Buffalo	Minneapolis	Vancouver, Canada
Canton, Mass.	Newark, N. J.	Mexico City, Mexico
Charlotte	New Orleans	Slough, England
Chicago	New York	Braunston, England
Cincinnati	No. Kansas City, Mo.	Manchester, England
Cleveland	Philadelphia	Sydney, Australia
Dallas-Ft. Worth	Pittsburgh	Lille, France
Detroit	Portland, Ore.	Delft, Holland
Houston	Saylesville, R. I.	Benoni South, South Africa
Indianapolis	St. Louis	
Jacksonville	San Francisco	
Los Angeles	Seattle	
Memphis		

Plants

Atlanta	Toronto, Canada
Baltimore	Montreal, Canada
Canton, Mass.	Mexico City, Mexico
Chicago	Slough, England
Cincinnati	Braunston, England
Dallas-Ft. Worth	Battersea, England
Indianapolis	Goole, England
Long Mott, Texas	Manchester, England
Los Angeles	Sydney, Australia
Memphis	Lestrem, France
Meredosia, Ill.	Delft, Holland
Newark, N. J.	Benoni South, South Africa
No. Kansas City, Mo.	
Plainfield, N. J.	
San Francisco	
Towaco, N. J.	

Executive Offices: 750 Third Avenue, New York, N. Y. 10017

Research Center: Plainfield, N. J.

In Canada: National Starch and Chemical Co. (Canada) Ltd., Toronto
Kleen-Stik Products, Limited, Toronto

In Mexico: National Starch and Chemical de Mexico, S.A. de C.V., Mexico City

In England: National Adhesives and Resins Limited, Slough
Laing-National Limited, Battersea

In Australia: Inter-National Adhesives and Resins Pty. Ltd., Sydney

In France: Roquette-National Chimie, Lille

In Holland: Delft-National Chemie, N. V., Delft

In South Africa: Technical Adhesives & Chemical Products (Pty.) Ltd., Benoni South

*Includes joint ventures and associated companies.

NATIONAL STARCH AND CHEMICAL CORPORATION

